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Calendar No. 855

86TH CONGRESS }
1st Session }

SENATE }

REPORT
No. 837

FOREIGN SERVICE RETIREMENT AND DISABILITY SYSTEM

AUGUST 31, 1959.—Ordered to be printed

Mr. FULBRIGHT, from the Committee on Foreign Relations, submitted
the following

R E P O R T

[To accompany S. 1502]

The Committee on Foreign Relations, having had under consideration the bill (S. 1502) to provide for adjustments in annuities under the Foreign Service retirement and disability system, reports S. 1502 with an amendment, which would provide a 10-percent increase in annuities of retired Foreign Service officers and their survivors, and recommends that it pass.

REASON FOR THE BILL

Inflation is the reason for this bill. It is well known that during recent years the purchasing power of U.S. currency has steadily declined. Annuities of retired Foreign Service officers and their survivors which were intended by law to be adequate have proved to be inadequate.

The retired Foreign Service personnel thus adversely affected by inflation served the United States honorably and well during their careers. Some of them unfortunately now find themselves in financial difficulties. Such cases are especially disturbing when they involve widows of Foreign Service personnel. Wives of Foreign Service officers share fully the strains and hardships involved in representing the United States abroad, often in unhealthful places. It is therefore particularly unfortunate when widows of Foreign Service officers are in financial need.

To meet the clear and pressing needs of retired Foreign Service personnel the committee recommends a 10-percent increase in the annuities of all annuitants and survivor annuitants. Such an increase will bring Foreign Service annuitants to the same relative level as civil service annuitants with respect to cost-of-living increases provided by the Congress.

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ISSUES

It is true that the Government has no legal obligation to increase the annuities of retired Government employees. The annuity represents a contract between the Government and the employee which was fixed at the time of his retirement. On the other hand, the policy of the retirement systems is designed to insure adequate retirement incomes for former Government workers depending of course on their length of service and salary levels. In spite of the efforts of the Congress and successive administrations, inflation has interfered with Government employee retirement plans.

In its original form, S. 1502 incorporated the principle that the annuities paid from the Foreign Service Retirement and Disability Fund should automatically be increased when salaries of active Foreign Service officers were increased so that each retired person would receive the same annuity as would be received by currently retiring officers of the same class, grade, and years of service. This proposal has been adopted, with occasional exceptions, in the law pertaining to annuities of retired military personnel. The principle has not been adopted for retired civil service personnel. After careful consideration the committee decided not to depart from the pattern which has been set for nearly all retired civilian employees; namely, periodic across-the-board percentage increases to meet rises in the cost of living. The administration witnesses supported a 10-percent increase.

The committee believes that sometime soon the Congress should consider the disparity of benefits as between the retirement system for military personnel and that applied to civilian personnel of the Government, including Foreign Service personnel. Perhaps the main disparity lies in the fact that civilian employees contribute 6½ percent of their salaries to their retirement fund throughout their job careers, whereas military personnel contribute nothing.

A related problem concerns those cases where a participant under the Foreign Service retirement system died leaving a widow who is not entitled to receive an annuity under the system. Existing law provides that the Secretary of State may grant such a widow an annuity of not to exceed \$1,200 per year if he finds that such widow is in actual need. The committee agreed that this amount is too low and recommends that it be increased to \$2,400 per year. The committee eliminated the "need test" because it is inconsistent with the annuity principle. On the other hand the committee felt that it would be improper for a widow of a Foreign Service officer to receive an annuity payable from the Foreign Service Retirement Fund if she were receiving benefits under the Federal Employee Compensation Act, and accordingly the committee bill prohibits such dual benefits.

In September 1958, Public Law 85-882 provided for a 10-percent increase in annuities for Foreign Service retirees with a maximum increase of \$500 per year. That action left Foreign Service retired personnel 10 percent behind the civil service annuitants with respect to periodic cost-of-living increases.

WHAT THE BILL DOES

Section 1 of the bill would provide a 10-percent increase in the annuities of all annuitants and survivors annuitants who on August 1, 1959, are receiving annuities based on service which ended prior to

FOREIGN SERVICE RETIREMENT AND DISABILITY SYSTEM 3

July 31, 1959. These increases will begin on the first day of the first month which begins more than 30 days after the date of enactment.

Sections 2 and 3 propose adjustments in annuities that will begin after September 1, 1959, on a graduated schedule like that of Public Law 85-882, referred to above. Future annuities will be progressively reduced because the general 10 percent salary increase for the Foreign Service and other Government employees enacted in 1958 will benefit persons retiring in the future to some extent.

COST OF BILL

It is estimated that the 10-percent increase in annuities will cost about \$300,000 per year. This compares with an estimated cost of nearly \$900,000 annually for the bill if the principle of recomputation of annuities had been adopted.

COMMITTEE ACTION

S. 1502 was introduced by Senator Sparkman on March 23, 1959. A public hearing on the bill was held on July 15, 1959, and representatives of the executive branch and several retired Foreign Service officers and surviving annuitants presented their views. The committee considered S. 1502 on August 27, 1959, and ordered it favorably reported with an amendment.

CONCLUSIONS

The Committee on Foreign Relations recommends that the Senate move to repair some of the damage done by inflation to the orderly and adequate retirement system previously established by law for Foreign Service personnel. Upward adjustment of 10 percent in Foreign Service annuities will place retired Foreign Service officers on a par with retired civil service employees. The committee accordingly recommends that the Senate approve S. 1502, as amended.

CHANGES IN EXISTING LAW

SECTION 5 OF THE ACT OF MAY 1, 1956 (PUBLIC LAW 503, 84TH CONGRESS), AS AMENDED BY S. 1502

[SEC. 5. In any case where a participant under the Foreign Service retirement and disability system died, leaving a widow who is not entitled to receive an annuity under the system, the Secretary of State is authorized and directed to grant such widow an annuity of not to exceed \$1,200 per annum, if he finds that such widow (whether remarried or not) is in actual need and without other adequate means of support.]

SEC. 5. In any case where a participant under the Foreign Service retirement and disability system died before August 29, 1954, leaving a widow who is not entitled to receive an annuity under the system and who is not receiving benefits under the Federal Employees Compensation Act, the Secretary of State is authorized and directed to grant such widow an annuity of not to exceed \$2,400 per annum.

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To meet the clear and pressing needs of retired Foreign Service personnel the committee recommends a 10-percent increase in the annuities of all annuitants and survivor annuitants. Such an increase will bring Foreign Service annuitants to the same relative level as civil service annuitants with respect to cost-of-living increases provided by the Congress.

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